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Attorneys for Debtors and
 Debtors in Possession

UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEVADA

In re: THE RHODES COMPANIES, LLC, aka "Rhodes Homes," et al., ¹ Debtors.	Case No.: BK-S-09-14814-LBR (Jointly Administered) Chapter 11 Hearing Date: July 17, 2009 Hearing Time: 1:30 p.m.
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¹ The Debtors in these cases, along with their case numbers are: Heritage Land Company, LLC (Case No. 09-14778); The Rhodes Companies, LLC (Case No. 09-14814); Tribes Holdings, LLC (Case No. 09-14817); Apache Framing, LLC (Case No. 09-14818); Geronimo Plumbing LLC (Case No. 09-14820); Gung-Ho Concrete LLC (Case No. 09-14822); Bravo, Inc. (Case No. 09-14825); Elkhorn Partners, A Nevada Limited Partnership (Case No. 09-14828); Six Feathers Holdings, LLC (Case No. 09-14833); Elkhorn Investments, Inc. (Case No. 09-14837); Jarupa, LLC (Case No. 09-14839); Rhodes Realty, Inc. (Case No. 09-14841); C & J Holdings, Inc. (Case No. 09-14843); Rhodes Ranch General Partnership (Case No. 09-14844); Rhodes Design and Development Corporation (Case No. 09-14846); Parcel 20, LLC (Case No. 09-14848); Tuscany Acquisitions IV, LLC (Case No. 09-14849); Tuscany Acquisitions III, LLC (Case No. 09-14850); Tuscany Acquisitions II, LLC (Case No. 09-14852); Tuscany Acquisitions, LLC (Case No. 09-14853); Rhodes Ranch Golf Country Club, LLC (Case No. 09-14854); Overflow, LP (Case No. 09-14856); Wallboard, LP (Case No. 09-14858); Jackknife, LP (Case No. 09-14860); Batcave, LP (Case No. 09-14861); Chalkline, LP (Case No. 09-14862); Glynda, LP (Case No. 09-14865); Tick, LP (Case No. 09-14866); Rhodes Arizona Properties, LLC (Case No. 09-14868); Rhodes Homes Arizona, L.L.C. (Case No. 09-14882); Tuscany Golf Country Club, LLC (Case No. 09-14884); and Pinnacle Grading, LLC (Case No. 09-14887).

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Affects:

Courtroom 1



All Debtors



Affects the following Debtor(s)

DEBTORS' REPLY TO OBJECTION OF THE FIRST LIEN STEERING COMMITTEE TO MOTION OF DEBTORS FOR ENTRY OF AN ORDER EXTENDING THEIR EXCLUSIVITY PERIODS TO FILE A CHAPTER 11 PLAN AND SOLICIT ACCEPTANCES THEREOF PURSUANT TO SECTION 1121(d) OF THE BANKRUPTCY CODE AND (II) EMERGENCY MOTION TO EXTEND THE 90-DAY TIME PERIOD TO FILE A PLAN UNDER SECTION 362(d)(3) OF THE BANKRUPTCY CODE [RELATES TO DOCKET NOS. 233 AND 261]

The underlying theme in the Objection by the First Lien Steering Committee ("FLSC") is that the Debtors' exclusivity period should be terminated although the Debtors have negotiated in good faith with the FLSC and all key constituents for a consensual plan of reorganization. Under the plan negotiations purportedly "led" by the FLSC, the FLSC has managed to completely alienate a key constituency, has continuously delayed in turning plan term sheets around to the Debtors, and has yet to reach a deal with the Official Committee of Unsecured Creditors. The Debtors gave the FLSC the benefit of the doubt and, as the FLSC states multiple times in its Objection, negotiated in good faith with the FLSC for a consensual plan. However, on June 22, 2009, the FLSC unilaterally decided to terminate consensual negotiations with the Debtors' equity and certain non-Debtor affiliates (the "Non-Debtor Affiliates"). The Debtors are informed and believe that the FLSC has refused to talk with the Non-Debtor Affiliates since that time.

In the meantime, the Debtors have negotiated and received on July 8, 2009 a plan term sheet from the Non-Debtor Affiliates that provides for significant recovery for creditors, including the contribution of non-estate assets for the plan. On that same date, the Debtors received a further revised term sheet from the FLSC. The Debtors are currently evaluating and considering both plan term sheets and consulting with the Official Committee of Unsecured Creditors. While conceivably, the Debtors could propound the plan that the FLSC suggests that leaves behind the Non-Debtor Affiliates, the Debtors do not believe that protracted litigation or two competing plans is in the best interest of creditors in these cases. Rather, a consensual deal amongst all key constituencies, including the Non-Debtor Affiliates, will maximize value for all parties. Among other things, certain of the Non-Debtor Affiliates are guarantors on several

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1 construction bonds for ongoing projects. One of the Non-Debtor Affiliates owns and operates
 2 Rhodes Ranch golf course, which is the centerpiece of the Rhodes Ranch development around
 3 which are several of the Debtors' inventories of homes remaining to be built and sold. Certain
 4 other of the Non-Debtor Affiliates own easements that are necessary to build out certain of the
 5 Debtors' developments.

6 To accomplish a consensual plan that deals with these issues (and which are not dealt
 7 with in the FLSC's term sheet), the Debtors have requested a formal plan mediation with all
 8 parties – the Debtors, the FLSC, the Committee, and the Non-Debtor Affiliates. *See* attached
 9 Exhibit A. As of the date and time of filing this Reply, the Debtors are pleased to report that all
 10 parties have consented to mediation. However, the FLSC has placed conditions to their consent
 11 to mediate, which the Debtors are considering.

12 The plan exclusivity period was designed to provide the Debtors with the time to develop
 13 and propound a plan of reorganization that, in the Debtors' business judgment, provides the
 14 highest and best results for all constituencies. Ample cause exists here to extend the Exclusivity
 15 Periods to allow the Debtors the opportunity to proceed with plan mediation, or short of an
 16 agreement with all parties, to confirm the plan that the Debtors believe will maximize value to all
 17 classes of claims.

18 **The Debtors Have Made Incredible Progress Despite The Fact That One Of Its Key**
 19 **Constituencies Is Recalcitrant**

20 As discussed above, after the FLSC broke off discussions on June 22, 2009, the Debtors
 21 began discussions with the Non-Debtor Affiliates and in fact have received a term sheet for a
 22 plan that includes the gifting of non-Debtor assets for the plan (the "Equity-Sponsored Plan").

23 A recurrent theme in the Objection is that the Debtors have not been proactive with
 24 respect to plan negotiations. To the contrary, it is the FLSC that has consistently delayed turning
 25 drafts of the plan term sheet around. In one instance, it took the FLSC six weeks from the
 26 Debtors' turn of the term sheet to produce a revised term sheet. To accuse the Debtors of
 27 standing idly by is belied by the timeline of the plan negotiations, which have been as follows:

28 April 16: FLSC sends its first draft of term sheet

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1 April 20: (4 days later) Debtors send mark-up of term sheet including comments from
2 Non-Debtor Affiliates

3 April 22: (2 days later) FLSC sends second draft of plan term sheet

4 May 5: (8 days later) Debtors send mark-up of second draft of term sheet including
5 comments from Non-Debtor Affiliates

6 June 12: (42 days later) FLSC sends third draft of revised term sheet

7 June 21: (9 days later) Non-Debtor Affiliates send markup of third draft of term sheet

8 June 22: FLSC ceases negotiations with Non-Debtor Affiliates and draft fourth revised
9 term sheet carving out Non-Debtor Affiliates

10 July 8: (16 days later) FLSC sends the Debtors the fourth revised term sheet

11 Most recently, the Debtors requested a copy of the “revised” term sheet that would carve
12 out the Non-Debtor Affiliates on no less than four occasions beginning on June 26, but was only
13 provided the term sheet on July 8, 2009. So, when the FLSC states in its Objection that the
14 Debtors have not been actively involved in negotiating this fourth revised plan term sheet, this
15 statement is true because despite multiple requests by counsel and representatives for the Debtors
16 for a copy of it, the FLSC only gave the Debtors the plan term sheet on July 8, 2009 (a day
17 before they filed their Objection).

18 The FLSC accuses the Debtors of making “misleading” misrepresentations regarding the
19 status of plan negotiations. (See Obj., ¶ 13) To be clear, at the time of the filing of the Debtors’
20 exclusivity extension motion on June 19, 2009, the FLSC had not yet unilaterally decided to
21 terminate negotiations with the Debtors’ equity, which they subsequently did on June 22, 2009.
22 Ultimately, what the FLSC complains about in their Objection is that the Debtors have failed to
23 make progress with the FLSC based on the fourth revised term sheet that they have only
24 provided to the Debtors on July 8.

25 **These Cases are Complex**

26 The FLSC argues that although this case is large, it is not complex. Perhaps this case is
27 not as complex as some that members of the FLSC are involved with, but with all due respect, it
28 is complex. These 32 Debtors constitute a single operating company that is the third largest

homebuilder in the state of Nevada. That these cases are complex is evidenced by the significant issues that are not addressed in the FSLC term sheet and the FLSC's difficulty in reaching a consensus on a plan term sheet with key constituencies.

The Debtors Have Demonstrated Ample Cause to Support an Extension of the Exclusivity Periods

Extending the Exclusivity Periods will provide the Debtors, who, as the FLSC admit have acted in good faith with respect to the plan negotiations, the opportunity to consider another plan alternative. The FLSC concludes that the Debtors will not be able to confirm a plan without the support of the FLSC. That conclusion is facially incorrect and ultimately for the Court to decide at the confirmation hearing.

On these facts, under the familiar standards governing extensions of exclusivity, the Debtors' exclusivity extension motions should be granted: (1) the size and complexity of these cases is admittedly large; (2) sufficient time is needed to negotiate and finalize a plan; (3) good faith progress has been made toward reorganization; (4) the Debtors are paying debts as they come due; (5) the Debtors are making progress in negotiating with creditors, even those who have refused to talk with other constituents; (7) the Debtors' cases have not been pending for a long time; and (8) the Debtors are not seeking the extension to pressure creditors.

The primary policy reason of exclusivity is to allow the Debtors a fair chance to propose a plan. As one court aptly opined:

Finally, it must be recognized in applying the statutory standard that some delay for senior classes in realizing their rights may be justified by the attempt in reorganization to realize the maximum value out of the entity in the reorganization. Reasonable delay to foster a successful reorganization in that sense, even at the temporary expense of senior classes, is an integral part of the reorganizational process in the federal courts.

In re Public Serv. Co., 88 B.R. 521, 536-37 (Bankr. D.N.H. 1988). Here, where the Debtors can propose a plan that will reorganize the company, continue jobs, continue building homes, and

1 continue to contribute to the overall economy of the Las Vegas area, the Debtors respectfully
2 submit that they should be afforded the opportunity to do just that.

3 WHEREFORE, for the reasons set forth in the exclusivity extension motions and this
4 reply, the Debtors respectfully request that the motions be granted.

5
6 **DATED** this 15th day of July, 2009.

7
8 **LARSON & STEPHENS**

9 /s/ Zachariah Larson, Esq.
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EXHIBIT A



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July 13, 2009

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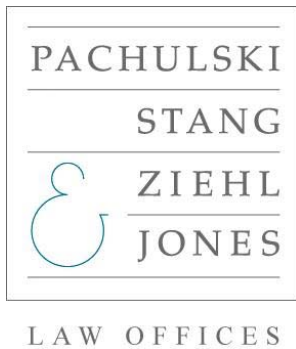
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Re: In re: Rhodes Homes, et al.

Dear Counsel:

The Debtors are in receipt of two competing plan term sheets-- one from the First Lien Steering Committee, and the other from certain of the Debtors' non-Debtor affiliates. At this juncture, the Debtors believe that non-binding plan mediation (including principals authorized to bind your client) would be in the best interests of all constituencies.

Accordingly, the Debtors respectfully propose any of the sitting Bankruptcy Judges for the District of Nevada (Judge Zive, Judge Markell, or Judge Nakagawa) or Judge Neiter (Central District of California) as the mediator. Please let me know whether your clients would be interested in such a mediation if possible, by July 15, 2009 at 12 p.m. pacific time. Please also respond with your



Phil Dublin
Brett Axelrod
Tom Beckett
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mediator choices in order of preference so that we may approach the agreed-upon mediator. Thank you.

Very truly yours,

/s/ Shirley S. Cho

Shirley S. Cho

cc: James I. Stang